Enclosure 5
DLAD 8120.4

PORTFOLIO MANAGER'S HANDBOOK

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PORTFOLIO MANAGER'S HANDBOOK

Contents

Section I

Introduction and Purpose

The portfolio management process establishes guidance for the management and oversight of portfolio activities that: (1) analyze the mission area to identify operational and business needs; (2) select the best mix of investments to achieve mission outcomes; (3) control both the portfolio and individual Information Technology (IT) investments as they are developed, tested, implemented and maintained; and (4) evaluate the actual capability in the field to feed back lessons learned and identify unmet requirements.

> "Recent statutory requirements, including the Clinger-Cohen Act (CCA), mandate that the Department of Defense (DoD) implement a process whereby IT investments are managed and evaluated based on measurable contributions to DoD mission goals and priorities, in support of end-to-end mission outcomes that cross operational, functional, and organizational boundaries."
>
> GUIDANCE AND POLICY FOR PORTFOLIO MANAGEMENT & OVERSIGHT EXPOSURE DRAFT: 12/14/99 - 8120

The portfolio management approach is directed at identifying the contribution that each portfolio investment makes towards the Defense Logistic Agency (DLA) mission outcome and total mission capability instead of simply managing and acquiring stand-alone systems. Through the portfolio management process, DLA is striving towards:

1) Unity of Purpose
2) Achievement of Corporate Goals
3) Best Business Practices
4) Enterprise Investments, and
5) Professional Acquisition Services.

The Portfolio Managers are a critical part of the portfolio management process structure. This handbook provides the Portfolio Manager with the guidelines and direction to fully establish a portfolio and the framework and business rules for managing the portfolio. It assists the Portfolio Manager in defining the portfolio business areas, establishing a portfolio team, identifying business values for prioritizing IT investments, and determining the portfolio contribution to the DLA and/or business area mission.

Section II

Portfolio Management Process and Structure Overview

A. Process

Portfolio Management and Oversight (PM&O): The process of **managing** and **overseeing** mission areas, functional areas, and mission and functional processes, and the resources associated with them, in order **to achieve desired outcomes**. It consists of the following activities: mission analysis, selection, control, and evaluation.

Mission Analysis is the activity that links mission goals to performance outcomes; identifies gaps and opportunities; provides for continuous improvement; and determines strategic direction for business and administrative areas.

Selection is the activity that identifies the best mix of investments to achieve mission outcomes with limited resources consistent with the available architecture or architectures.

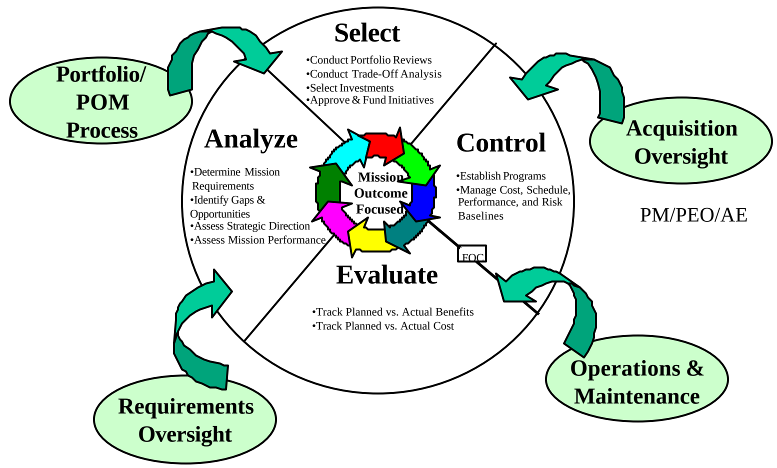
Control is the activity that ensures that a portfolio and the individual IT in the portfolio is acquired in accordance with cost, schedule, performance and risk baselines, and technical criteria.

Evaluation is the activity that measures actual contributions of the portfolio to the mission.

The portfolio management process is an ongoing, collaborative and flexible process, performed by stakeholder teams representing all life-cycle activities.   Requirements oversight, portfolio Program Objective Memorandum (POM)/Budget process, and acquisition oversight are the process drivers for the portfolio management activities.

Requirements oversight is the responsibility of the functional business organization. They own the functional requirements. The IT Business Office oversees the development of the IT portion of the POM; the Program Executive Officer (PEO) is responsible for the acquisition management process for emerging systems; and Enterprises Business Systems and processes owners support the management of the contemporary and legacy systems.

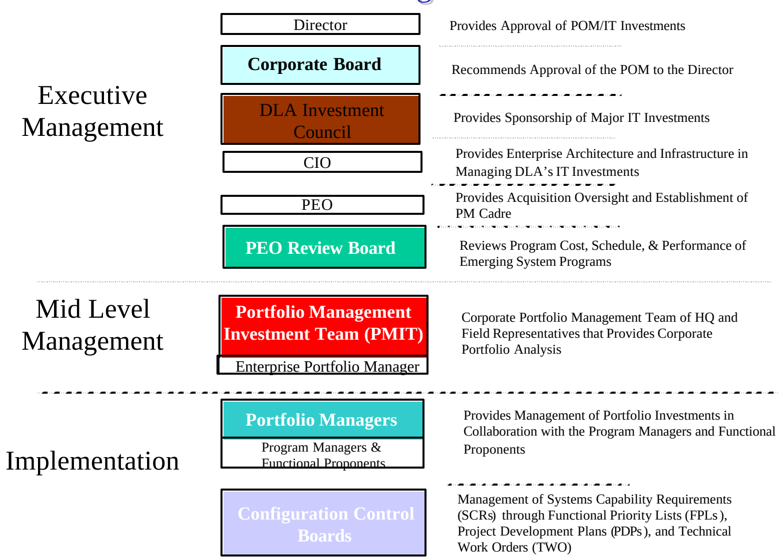
Integration of Processes



B. Structure

The portfolio management structure addresses three levels of review boards and teams to provide the organizational framework for implanting the portfolio management process. The portfolio management team is at the implementation level and focuses on portfolio contribution to mission outcome and the portfolio impact from changes to the business area IT investment cost, schedule, and performance baselines. The Portfolio Management Investment Team (PMIT) represents the mid-level management level and concentrates on the enterprise portfolio and the impact across portfolios relative to investment changes. The PEO Review Board provides program control at the executive level. The DLA Investment Council will provide recommendations to the Corporate Board.

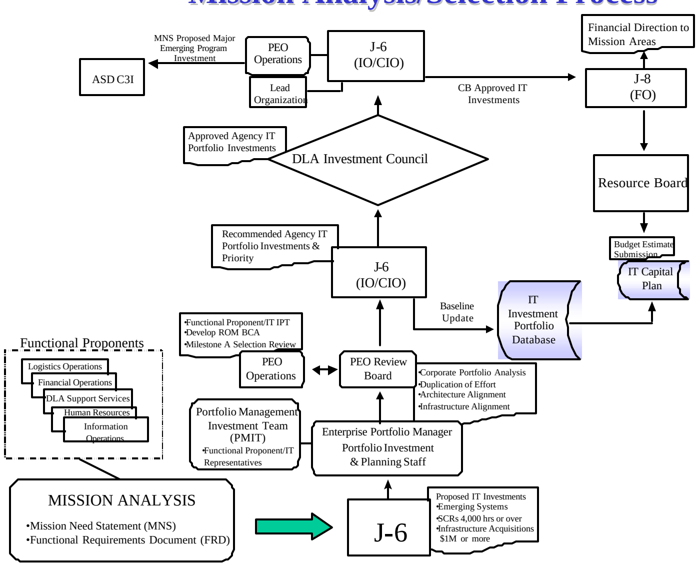
IT Investment Management Structure



Mission Analysis/Selection Process

It is the responsibility of the Functional Proponent to conduct a mission analysis and to identify deficiencies that can only be resolved through an IT capability. The Functional Proponent will provide a Mission Need Statement (MNS) and Functional Requirements Document (FRD) to Information Operations (J-6). J-6, as the lead, has the responsibility, through a collaborative effort, to identify possible IT alternative solutions and to assist in the preparation of a Rough Order of Magnitude (ROM) business case as a part of an IT investment proposal. The Enterprise Portfolio Manager, in coordination with the Portfolio Managers and Functional Proponents will determine if there are is an existing Automated Information System (AIS) that can provide the IT capability requested. A portfolio impact analysis is also conducted with information from the ROM business case to determine the impact of the investment across portfolios. The proposed investment proposal is briefed for selection to the PEO Review Board for a Milestone A decision or recommendation.

Mission Analysis/Selection Process



Section III

Roles and Responsibilities

Portfolio Managers

The Portfolio Manager takes a leadership role in the management of the investment portfolio representing the stakeholders and owners of the IT investments in each of the investment areas. Each Portfolio Manager should structure the portfolio to satisfy the management strategy and approach that makes good business sense for the types of investments being managed. This will drive the establishment of the portfolio management effort and subsequent investment area participation.

The key responsibilities of the Portfolio Manager are to 1) establish the portfolio management approach, 2) provide leadership to the Portfolio Management Team, 3) provide portfolio reviews to the executive leadership, and 4) manage portfolio risk.

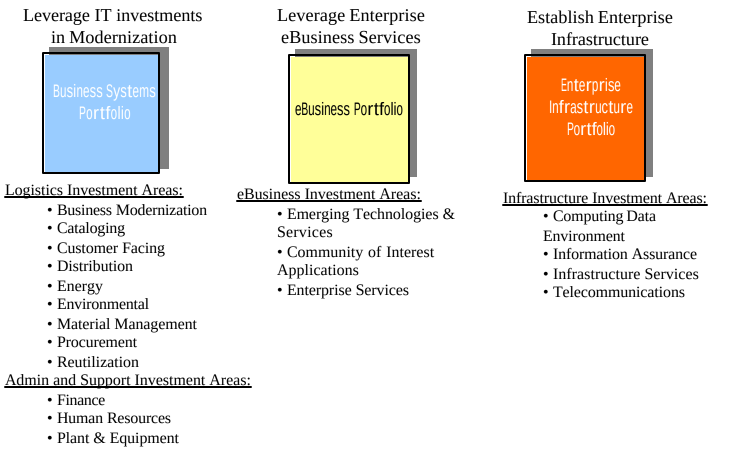
Establishing the Portfolio Management Approach

The establishment of the portfolio management approach to ensure that the management of the portfolio investments is a collaborative effort is critical to the success of the portfolio management process. The management of the IT investments should be a collaborative effort between the Functional Proponent/Process Owners and J-6. It is the responsibility of the IT designated Portfolio Manager to identify the appropriate stakeholders and Process Owners that should be involved in the management of the portfolio and participate in the investment decision process. Participants should be at a manageable level with appropriate representation.

Establishing the Portfolio Investment Area Management Structure

Portfolio Managers may also identify Investment Managers or key participants at the investment area level to support the management of the portfolio investments within that investment area. The Business Systems Portfolio may, as an example, have an Investment Manager or Subject Matter Expert (SME) from the Material Management investment area. Each Portfolio Manager will need to establish a management approach and management structure that bests supports his/her portfolio management objectives.

Portfolio Contents



Portfolio Management Responsibilities

As a Portfolio Manager within a collaborative effort, the key responsibilities are: 1) to establish and clearly define the portfolio and its IT investments; and 2) to manage the mix of portfolio investments to maximize contribution to mission outcome.

Verifying and Validating IT investment areas and IT investments that make up the portfolio.

It is essential for the portfolio management team to verify and validate the investments currently identified in the portfolio. The appropriate investment area managers should take ownership of the IT investments and be able to clearly identify each investment. Portfolio Managers should ensure IT investment profiles and system summaries are completed by the Process Owner in identifying each IT investment.

The DLA Profile Services (DPS) database is available for Portfolio Managers to capture their IT investments and associated investment profiles and system summaries. Section IV provides a description and operational concept of the DPS.

The verification and validation of IT investment areas is a collaborative effort among the Portfolio Managers. In the validation processes, it is also necessary for the Portfolio Managers to identify the relationships and overlaps of the investments in the corporate portfolio. The POM/Budget will be aligned with the investments in the approved portfolios.

Final approval for the content of the investments in each portfolio is the Chief Information Officer (CIO).

Identifying portfolio contribution to mission outcome

It is the responsibility of the Enterprise Portfolio Manager and Portfolio Managers to determine the portfolio contribution that Business Systems, eBusiness and Infrastructure portfolios make to the DLA mission outcome. This will become the weighted factor in determining the relative importance of the investment within the corporate portfolio. For example, it may be determined that the business systems portfolio contributes 60%, eBusiness portfolio 10%, and enterprise infrastructure portfolio 30% representing J-6's total contribution (100%) to DLA's mission outcome. The weighted factors would then be .6, .1, and .3, respectively. The contribution may be measured by the portfolio's support to supply chain, revenue generated, size of supporting workforce, resources consumed, etc. The analysis is supported by a decision-making methodology and tool.

DLA Mission Statement

> *To provide best value logistics support to America's Armed forces, in peace and war…around the clock, around the world.*

Balanced Scorecard – Internal Business

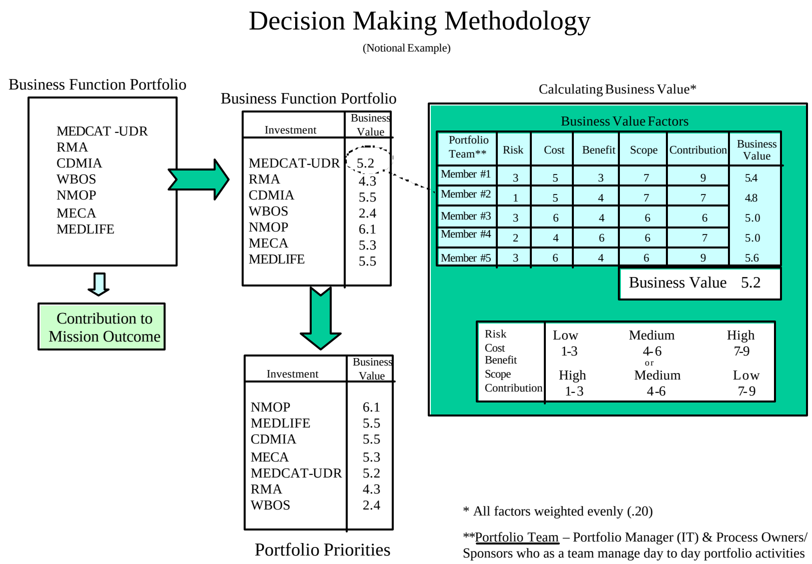
> ***IT Strategy:*** *"Design and implement a best value enterprise IT environment."*

Identifying the IT Investment Business Value

A repeatable process to prioritize IT investments within a portfolio is established by identifying a business value for each of the investments. There are five factors to consider in identifying the business value:

1) Investment Contribution to Mission Outcome,
2) Benefits derived from the Investment,
3) Cost of the Investment,
4) Risk derived from the Investment, and
5) Scope of the Investment.

Through a series of workshops, supported by a decision-making tool, the investment management team and/or portfolio management team will designate a business value for each the IT investments. A decision-making methodology provides a table for defining the value to be applied to each of the factors. It includes considerations and sub-factors that assist in clearly defining each of the five factors.



Each team member provides a value for each factor or sub-factor for a designated investment based on the table. The tool will calculate the business value based on averages and weighted factors.

Review of the Business Value Factors

1) Contribution to Mission Outcome

The factor, Contribution to Mission Outcome, is measured by the percent contribution that the investment makes to the Investment Area. If each of the four investments in an investment area contributes equally to the investment area, each would be measured at 25%.

For emerging systems that have not been deployed or legacy systems that are being replaced, the contribution to mission outcome is considered to be the importance that the system has to achieving the mission. Standard Automated Material Management System (SAMMS) and Defense Integrated Subsistence Management System (DISMS) are important to the DLA mission but Business Systems Modernization (BSM), relative to SAMMS and DISMS, is of more significant importance in achieving DLA 21 goals and objectives. The contribution to mission outcome, therefore, for BSM may be 60% while that of SAMMS and DISMS may be 20%, respectively.

2) Benefits

Benefits are subdivided into several categories. Some or all of the benefit sub-factors may apply depending on the investment. Benefits are divided into: a) intangible benefits; b) cost savings/Return on Investment (ROI); c) cost avoidance; d) efficiency; and e) payback.

3) Cost

Cost is divided into three types of cost relative to the investment. Cost for operations and maintenance on an annual basis addresses those investments already in place. Development cost includes the development and/or Commercial-Off-The-Shelf (COTS) costs of an emerging AIS investment through Full Operational Capability (FOC).

Procurement cost is the third type of cost and addresses the purchase of software applications, hardware, and services.

4) Risk

The risk factor is derived from several sub-factors. These sub-factors are:

- Cost Risk
- Schedule Risk
- Technical Risk
- Risk Due to Complexity
- Organizational Risk

5) Scope

Scope reflects three sub-factors: a) operational importance; b) impact; and c) support to strategic direction. This factor will help delineate between legacy, contemporary, and emerging system investments.

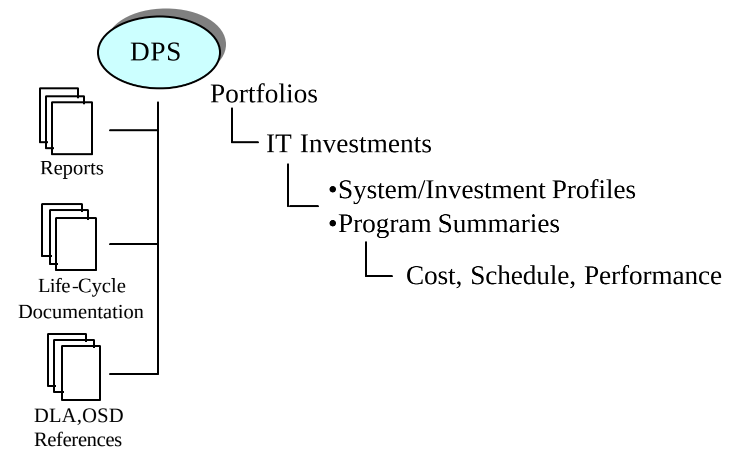
SECTION IV

DLA Profile Services (DPS) Database and Tools

DPS

The DPS provides access to portfolio information and specific information relative to the IT investments for the portfolio and Investment Managers. The DPS is the baseline database for IT investments. The drill down capability allows viewing of the contents of a portfolio, contents of an investment area, and system profile or system summary of a specific IT investment to include cost, schedule, and performance information. The DPS also provides direct access to life cycle documentation and appropriate DLA and Office of the Secretary of Defense (OSD) guidance and directives. The DPS is the responsibility of the Corporate Portfolio Manager with database administrative support provided by Enterprise Business Systems (J-64).

DLA Profile Services (DPS) Database



Tools

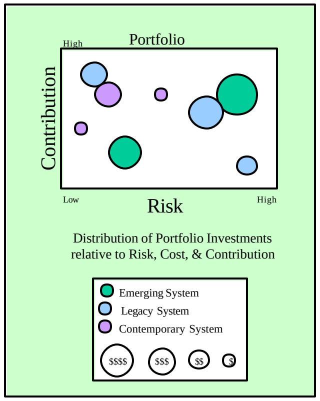
A decision making tool is recommended to provide the capability to capture the opinions of the investment team members in a group setting and synthesize the information into a single decision. The use of a tool supports a process that is structured and repeatable and does not rely totally on a subjective assessment for prioritizing or selecting the IT investments within the portfolio.

The use of tools, using weighted averages, will enable the Enterprise Portfolio Manager, Portfolio Managers and Investment Managers to prioritize IT investments within their level of management.

The decision tool and methodology will provide the framework for portfolio analysis and investment business decisions.

Data from the decision tool can be captured in an analysis tool to support the analysis of the investments within the investment area or portfolio. Various investment maps could assist in comparing investments relative to cost, benefit, risk, contribution to mission outcome, and scope. The investment maps would provide a view of the distribution of investments within the investment area or portfolio.

Portfolio/Investment Analysis



Operational Concept

Facilitated workshops will be conducted with investment and portfolio management teams to develop business values. The decision tool would be available at each workshop to capture the team input. Workshops could be done at the DLA headquarters or at the appropriate field site. Coordination for the workshops would be done through the Portfolio Manager in coordination with the Corporate Portfolio Manager. It is expected that the workshops would be conducted on an annually basis prior to the preparation of the POM or as needed. Changes to investment costs, risk, benefits, or the addition of newly selected investments would be made on an as needed basis in coordination with the Portfolio Manager.

The analysis tool would be located at J-6 with login web access by the investment and Portfolio Managers. The analysis tool would capture the business value data and provide the appropriate investment map via the Web. Levels of access would be established at the corporate, portfolio, and investment management levels.

SECTION V

Portfolio Manager's Action Plan

The Portfolio Manager will establish a plan of action identifying roles and responsibilities, activities, key milestones, and activity relationships for developing their portfolio to include the establishment of the portfolio and investment teams, validation of IT investments, business values and investment priorities. The following work breakdown structure is provided to assist in developing the action plan:

1.0 Portfolio Team
- 1.1 Identify team composition
- 1.2 Identify team members
- 1.3 Notify team members
- 1.4 Identify roles and responsibilities

2.0 Define the Portfolio
- 2.1 Mission Contribution
  - 2.1.1 Define mission
  - 2.1.2 Identify portfolio contribution to mission outcome
  - 2.1.3 Establish metrics to measure contribution
- 2.2 Business Area Investments
  - 2.2.1 Identify business areas
  - 2.2.2 Identify business area managers
  - 2.2.3 Identify IT investments
  - 2.2.4 Review/validate investment profiles/systems summaries
- 2.3 Business Values
  - 2.3.1 Conduct training sessions
  - 2.3.2 Conduct business value workshops
  - 2.3.3 Identify investment business values
  - 2.3.4 Prioritize business investments

3.0 Analyze the Portfolio Composition
- 3.1 Analyze appropriate investment maps
- 3.2 Identify investment concerns and issues
- 3.3 Reassess portfolio investment content

SECTION VI

Conclusion

The portfolio management process is a DLA process that focuses on a collaborative effort between IT and the functional business owners in managing DLA's IT investments to meet functional requirements within an operational architecture. Investment decisions are driven by the DLA mission in support of the warfighter. Trade-offs among investments are made to maximize benefit to the mission. The key portfolio management tasks are summarized as follows:

Managing the Portfolio

- Categorize IT Investments
- Determine Contribution to Mission Outcome
- Manage Risk
- Manage and Leverage Interdependencies
- Adjust Portfolio IT Investment Composition
- Measure Against Balanced Scorecard Metrics